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MDC CORPORATION INC.

2002 Annual Report

Consolidated Financial Summary

(in thousands of Canadian dollars, except per share amounts)

For the years ended December 31,	2002	2001 (Restated)	% Change
Sales	**943,332**	1,113,272	– 15
Operating income before other income (charges)	**79,837**	118,344	– 33
Income (loss) before income taxes, goodwill charges and minority interest	**153,039**	(52,484)	
Cash flow from operations	**37,642**	152,694	
Income (loss) from continuing operations	**148,313**	(113,074)	
Net income (loss) for the period	**148,313**	(153,074)	
Earnings per share			
Income (loss) from continuing operations			
Basic	**8.68**	(6.83)	
Fully diluted	**5.87**	(6.83)	
Earnings per share			
Net income (loss)			
Basic	**8.68**	(9.20)	
Fully diluted	**5.87**	(9.20)	
Cash flow per share			
Basic	**2.13**	8.91	
Fully diluted	**1.51**	6.64	

For the three months ended December 31,	2002	2001	% Change
Sales	**230,016**	286,224	– 20
Operating income before other income (charges)	**19,655**	30,515	– 36
Income (loss) before income taxes, goodwill charges and minority interest	**3,693**	67,615	
Cash flow from operations	**9,422**	108,942	
Net income for the period	**2,336**	40,873	
Earnings per share			
Net income			
Basic	**0.12**	2.38	
Fully diluted	**0.10**	1.24	
Cash flow per share			
Basic	**0.53**	6.41	
Fully diluted	**0.38**	3.30	

Condensed Consolidated Balance Sheet

(in thousands of Canadian dollars)

As at December 31,	2002	2001 (Restated)	% Change
Cash and short-term investments	**59,615**	59,301	+ 1
Other current assets	**127,355**	206,020	– 38
Other assets	**419,016**	629,185	– 33
Total assets	**605,986**	894,506	– 32
Current liabilities	**192,517**	240,814	– 20
Long-term indebtedness	**245,339**	527,468	– 53
Minority interest	**15,499**	15,253	+ 2
Shareholders' equity	**152,631**	110,971	+ 38
Total liabilities and shareholders' equity	**605,986**	894,506	– 32

the MDC group of companies

MDC companies enjoy market-leading positions in their businesses in Canada, the United States, Europe and Australia. MDC owns:

Custom Direct
the second largest supplier of direct-to-consumer cheques in the U.S. market.

85% of Metaca Corporation
the leading provider of credit, debit, telephone and smart card services in Canada.

Mercury Graphics
a major supplier of secure ticketing products to the world's leading airline, sports, entertainment and transit companies.

Ashton-Potter
one of the world's largest private providers of postage stamps.

78% of Maxxcom
the largest full-service marketing communications organization based in Canada. Maxxcom, which is listed on the Toronto Stock Exchange, is built around entrepreneurial partner firms that provide a comprehensive range of communication services to clients in Canada, the U.S. and Europe. Services include advertising, direct marketing, database management, sales promotion, public relations, public affairs, investor relations, marketing research and consulting, corporate identity and branding, and interactive marketing.

Message to Shareholders

Miles S. Nadal
Chairman, President & Chief Executive Officer

At this time last year, MDC communicated that in 2002 management would focus on "Taking Care of Business." We outlined a number of objectives for MDC – placing profitability before growth; continuing to reduce leverage; reducing the number of businesses and geographies in which MDC participates; and increasing market share to further strengthen our remaining business platforms.

In 2002, we did not waver from this focus and were successful in delivering on all our objectives.

We returned MDC to profitability and made significant further improvements in the Company's balance sheet. With the divestiture of several non-core assets, completion of the sale of our remaining interest in Davis + Henderson and the operating improvements realized in all our businesses, we completed the restructuring plan that began in the fall of 2001.

There is more to do, but MDC is a far different company than just two years ago. Its structure is simpler, the productivity of its operations has been improved and it has enhanced its financial flexibility, which will enable it to pursue its goal of shareholder value creation and realization.

2002 RESULTS Net income was $148.3 million or $5.87 per fully diluted share in 2002 compared to a loss of $153.1 million or a loss of $9.20 per fully diluted share in 2001. However, direct comparisons are difficult as both years reflected asset divestitures, restructuring and other charges.

However, excluding the impact of divested operations, restructuring, disposition and other charges from both years, operating income at MDC increased 16% in 2002 to $61.0 million, with much of the improvement coming in the fourth quarter.

On a consolidated basis, excluding divested operations, MDC revenue increased by $7.2 million or 1% in 2002 to $863.6 million. This was the result of stronger performance at Custom Direct as well as Maxxcom, Metaca and Mercury, partially offset by a reduction in stamp revenues.

At Maxxcom, operating income before other charges was $26.8 million, virtually identical to 2001. However, Maxxcom's fourth quarter was its best ever with EBITDA of $9.8 million.

Crispin Porter + Bogusky, acquired in 2000, has emerged as one of the most renowned creative agencies in the United States. In 2002 it was named Agency of the Year by *Creativity* and named runner-up Agency of the Year by *Advertising Age*. Crispin Porter won several new high-profile business accounts in 2002 including BMW Mini, IKEA and Molson. In addition, our other U.S. agencies and our operations in the United Kingdom continued to demonstrate improvement. The Canadian operations of Maxxcom remained solid with growth in both revenue and operating income.

At the Secure Transactions Division, excluding the results of divested operations, operating income before other charges rose 34% to $34.2 million. After a slow start, activity improved during the year culminating in a strong fourth quarter.

Custom Direct achieved strong growth in operating income as incoming cheque orders continued to migrate to Internet and telephone channels from paper-generated sources. Internet and telephone orders generated significantly higher average order values due to the increased range of the product offering.

In 2002, MDC sold its remaining 54.55% interest in the Davis + Henderson Income Fund. The entire sale of Davis + Henderson by MDC resulted in proceeds of approximately $470 million, generating a significant return on the Company's total investment of approximately $100 million.

Other non-core operations that were divested in 2002 included CyberSight, A.E. McKenzie, Ashton-Potter Packaging, The House of Questa and Spectron Security Print. Total proceeds from all divestitures completed in 2002 were $297 million, which were used to significantly reduce MDC's indebtedness, including the purchase, at a discount, of US$113.6 million of the Company's 10.5% Senior Subordinated Notes.

Long-term indebtedness was reduced to $252 million at December 31, 2002, a decrease of $288 million from the $540 million existing a year earlier. Applying cash balances against indebtedness, net debt stood at $192 million at year end.

STRATEGY AND OUTLOOK In 2003, MDC will remain focused on managing each of its businesses effectively.

Maxxcom is well positioned to benefit from an increase in marketing and communication spending. The Company remains committed to its operating strategy of emphasizing new business development, ensuring effective cost management and improving its capital structure. Maxxcom expects to meet its remaining earn-out and put obligations due in 2003 through a combination of cash flow from operations, equity and existing credit facilities.

While there are no firm indications yet of a full-fledged recovery in Maxxcom's markets, three years of spending restraint has resulted in significant pent-up demand. We have created a sustainable, profitable platform for growth at Maxxcom. Cost levels continue to be subject to constant review. A net staff head count reduction of 125 employees was accomplished during the year.

At Custom Direct, we anticipate continued improvement in operating performance with average order values increasing as orders continue to shift to Internet and telephone channels. In addition, commencing in September 2003, Custom Direct will improve production efficiency as it internalizes production of its Artistic brand following the termination of a certain supply contract with a third party.

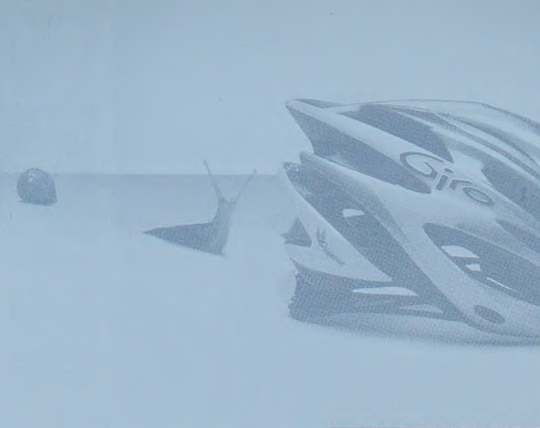
With the exception of Ashton-Potter, we expect moderate growth from our other operations in the Secure Transactions Division in 2003. Ashton-Potter has recently been contracted, as one of three private sector suppliers, to produce postage stamps for the United States Postal Service. The contract has an initial base term of four years with three two-year extension options available to the USPS. This contract award solidifies our relationship with the USPS and we look forward to continuing to grow this relationship in the years ahead.

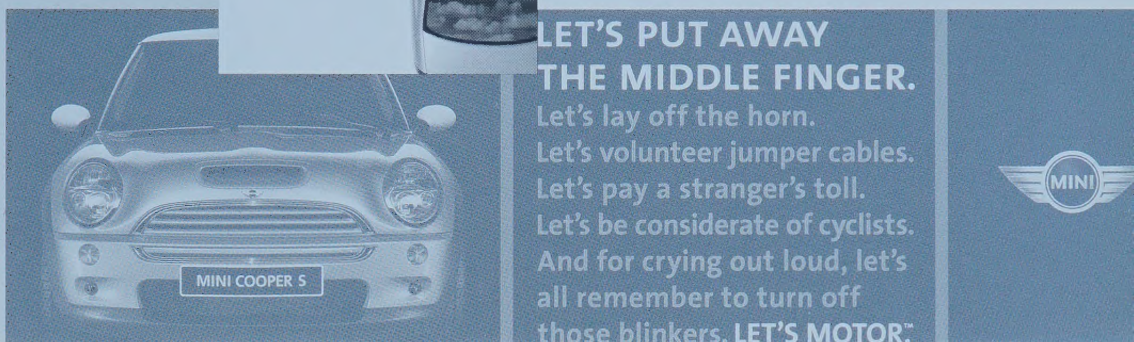
MDC will continue to remain alert for opportunities to capture value through further asset divestitures on appropriate terms. MDC has recently refiled the initial public offering of Custom Direct Income Fund, which had been postponed in November 2002 due to adverse conditions in the income trust market.

In 2003, we will continue to seek ways to improve our balance sheet, while simplifying the focus of our business and realizing value for our shareholders.

Miles S. Nadal

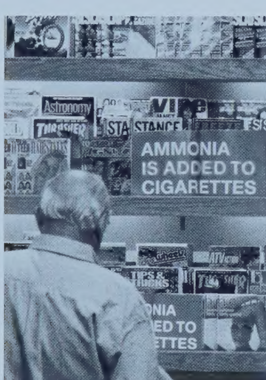
Miles S. Nadal
Chairman, President & Chief Executive Officer
April 15, 2003





Maxxcom

Strong fourth quarter improvement for Maxxcom, with EBITDA of $9.8 million, its best quarter ever.



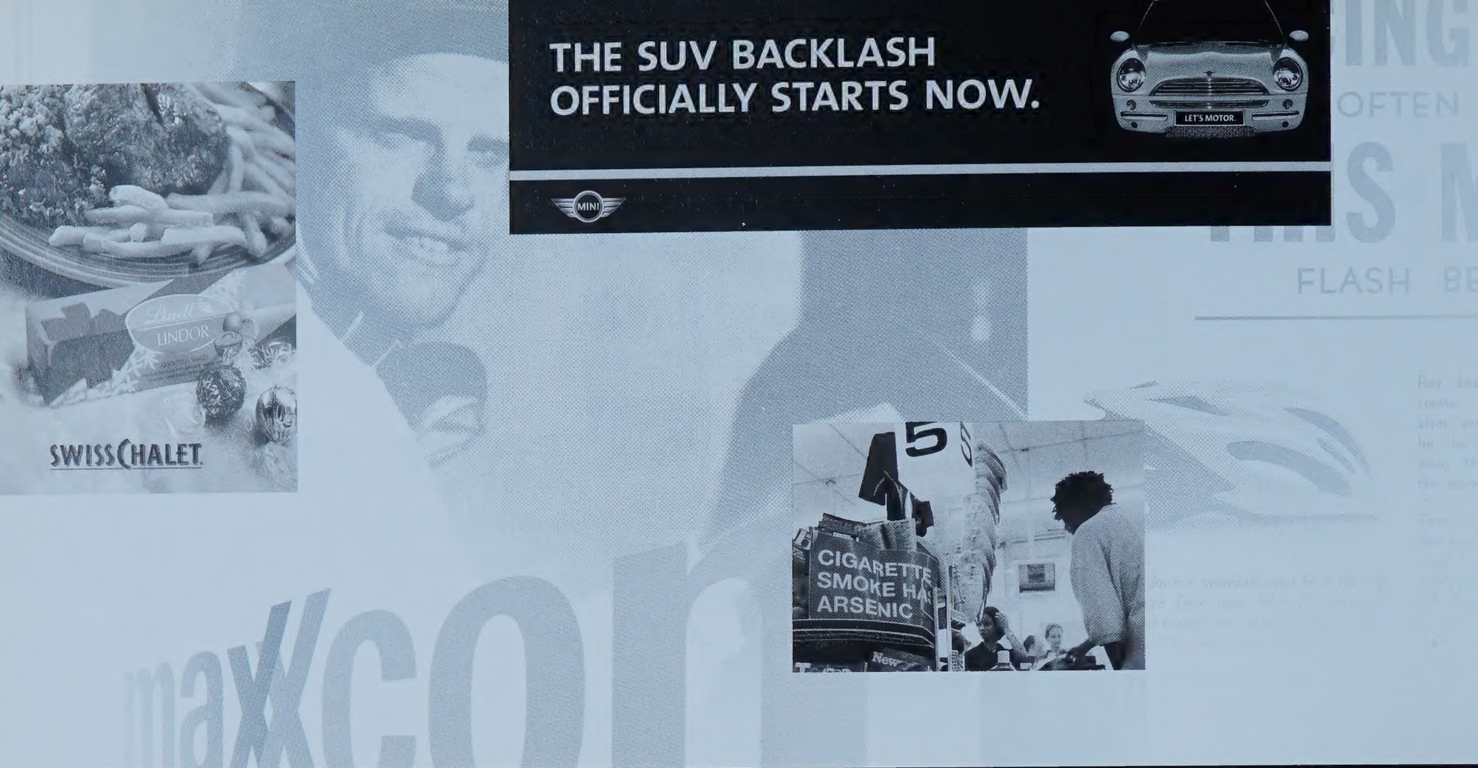
Maxxcom performed well in 2002, as marketing and communications markets improved generally and the Company's ad operations in the United States demonstrated their strength, particularly in the fourth quarter.

General market conditions remain relatively soft. There appears to be more room for optimism after three years of weak activity; however, Maxxcom is proceeding cautiously. In 2002, total head count at Maxxcom companies was reduced by approximately 125 people. While Maxxcom will continue to focus on cost management, improved performance is expected to be achieved largely from higher revenues, derived from Maxxcom's partners who are positioned to win new business in a market that is beginning to show signs of renewed activity.

In 2002, Maxxcom's operations achieved a number of notable business wins including IKEA, Novartis Animal Health, BMW Mini, Epson Printers (UK), Energy Savings Trust (UK) and Inglis Canada.

The U.S. operations continued to strengthen, led by Crispin Porter + Bogusky, which has emerged as one of the most renowned creative agencies in the U.S. Its work on the BMW Mini, IKEA and Molson accounts has drawn widespread critical praise for its creativity and the value it delivers to clients. Crispin Porter was named Southeast Agency of the Year by *Adweek*, Agency of the Year by *Creativity* and runner-up Agency of the Year by *Advertising Age*.

Maxxcom's other U.S. agencies also posted impressive wins. Margeotes | Fertitta + Partners won important new accounts with the Food Network and Independence Bank. Colle & McVoy was recently appointed agency of record for the U.S. division of Novartis Healthcare providing a range of advertising, public relations and communications services.



Maxxcom
continued

Canadian operations continued to perform strongly with solid organic growth in 2002.

In the United Kingdom, Maxxcom improved reporting structures and accountabilities by combining Grange Technologies with Interfocus Network. Interfocus was appointed agency of record for Epson Printers in the U.K. for both the business-to-business and consumer market sectors. Interfocus also won a new assignment for Panasonic.

Maxxcom's Canadian operations continued to perform strongly with solid organic growth in 2002. Inglis Canada chose Allard Johnson Communications to handle its media planning and creativity.

The result was strong fourth quarter improvement for Maxxcom, with EBITDA of $9.8 million, its best quarter ever. The company's balance sheet also improved in 2002 as a result of its positive financial performance and a rights offering to shareholders that raised $26.8 million. Cash and cash equivalents increased to $34.2 million at December 31, 2002 from $25.9 million a year earlier. Maxxcom has earn-out obligations (acquisition amounts owing to its partners) of $37.8 million payable in 2003, which it expects to meet through a combination of cash flow from operations, equity and access to existing credit facilities.

In 2003, the focus will continue to be on business development as well as maintaining an efficient operating cost structure with stronger demand for marketing and communication services expected.

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Secure Transactions

The remaining operations in our Secure Transactions Division generated improved operating performance in 2002, culminating in a strong fourth quarter.

Much of the improvement was the result of **Custom Direct**, MDC's direct-to-consumer cheque printing operation in the United States. Custom Direct's stronger performance was driven by higher average order values combined with reduced customer acquisition costs. In 1999, less than 1% of orders were received via the Internet or through a phone call center. In 2002, such orders represented almost one-third of all orders, increasing average order values and improving Custom Direct's margins.

In 2002, Custom Direct completed the integration of its acquisition program, which included the purchase of six cheque providers since 1997. Custom Direct is now the second largest direct-to-consumer cheque supplier in the U.S.

Metaca, the Company's card business, delivered stronger performance as it improved operating efficiencies, expanded its commercial markets and focused on customers that require higher value services. Metaca is now concentrating on profitability after a period of acquisitions and aggressive growth.

Mercury Graphics continues to expand its product offering, with a focus on transit products directed at the U.S. market. The company's core airline ticket market has come under pressure since the events of September 2001 but Mercury has minimized the financial impact by reducing input costs. Mercury continues to deliver secure ticketing products that combine onsite R&D with new technology allowing it to pursue higher margin business in the event ticketing, transportation and transit areas.

In 2002, **Ashton-Potter**'s stamp production declined slightly. However, in 2003, this trend will reverse as Ashton-Potter was one of three suppliers contracted to produce postage stamps for the USPS under Multiprint III. As a result, Ashton-Potter will expand production capabilities with state-of-the-art equipment in its New York facility to deliver increased volumes and product offerings. In addition, volumes are anticipated to expand over the life of the four-year base contract as the USPS is scheduled to allocate production currently performed by the Bureau of Engraving to private sector suppliers.

The following discussion focuses on the operating performance of MDC Corporation Inc. (the "Company" or "MDC") for the years ended December 31, 2002 and December 31, 2001, and its financial condition as at December 31, 2002. This analysis should be read in conjunction with the annual audited consolidated financial statements.

The annual audited consolidated statements, the management's discussion and analysis and all other information contained in this Annual Report are the responsibility of management. The Board of Directors is responsible for reviewing and approving the financial information contained in this Annual Report, and for overseeing management's responsibilities for the presentation and preparation of financial information.

Overview and Operating Strategies

The Company's objective is to create long-term shareholder value by building market leading companies that deliver innovative, value-added products and services to their customers. Management believes that long-term shareholder value is maximized with an operating philosophy of partnership with proven, committed industry leaders.

Over the past two years, the Company has restructured and simplified its operations and focused its resources on two divisions:

Marketing Communications

Maxxcom Inc. ("Maxxcom") – the largest full-service marketing communications organization based in Canada, providing a comprehensive range of communications services to its clients in Canada, the United States and Europe. Services include advertising, direct marketing, database management, sales promotion, corporate communications, marketing research, corporate identity and branding, and interactive marketing.

Secure Transactions Division

Custom Direct, Inc. ("Custom Direct") – the second largest direct-to-consumer cheque printer in the United States.

Metaca Corporation ("Metaca") – a leading provider of credit, debit and smart cards, in Canada and in Australia, through its subsidiary Placard Pty Ltd.

Mercury Graphics ("Mercury") – a major supplier of secure ticketing products to leading airline, sports, entertainment and transit companies.

Ashton-Potter (USA) Ltd. and Ashton-Potter Canada Ltd. ("Ashton-Potter") – providers of highly specialized postage stamp printing services to the United States Postage Service ("USPS"), Canada Post and other postal authorities.

Management of the Company believes that long-term success is achieved through the investment in selective segments of the business services sector that have significant potential for organic and acquisitive growth, in partnership with the management of the operating entities, providing them with strategic input and access to capital, to allow them to build on their diverse strengths.

In the marketing communications sector, successful firms must meet the increasing demands of clients for innovative programs and creative content, combined with a high-quality, reliable service delivery. This requires the talents, relationships, and leadership of key executives and management personnel. Accordingly, management's ongoing strategy is to acquire ownership stakes in well-managed businesses with strong reputations in the industry, using its Perpetual Partnership™ model to create incentive and retain key personnel.

In the direct-to-consumer cheque business, management believes the acquisition of new customers through access to reasonably priced, high circulation marketing channels is critical. In addition, maximizing the average order value per customer with value-added product and service offerings is a key driver of profitability. Custom Direct has multi-year contracts that provide exclusivity for cheque products in free-standing inserts that are circulated in major U.S. newspapers, reaching approximately 60 million U.S. households per week. Custom Direct offers the industry-leading selection of over 300 cheque designs, along with related products and services. Proprietary technology and leading edge e-commerce capabilities allow Custom Direct to remain a highly efficient operator, with competitive pricing, while maintaining strong operating margins.

Success in the credit card and smart card industry requires companies to offer their customers innovative products, highly reliable service, and extremely competitive pricing. Since its inception in 1997, Metaca has made significant investments in technology and other operational improvements, and has more recently focused its efforts on providing more profitable, higher value products and services to selective customers.

The ticketing and postage stamp businesses require the consistent delivery of highly specialized, secure products on a price-competitive basis. Revenues are typically derived from contracts which are generally awarded in competitive bidding processes. The Company has strong relationships with its customers, has partnered with experienced management, and has invested in leading edge technology, providing it with the expertise and cost structures to meet customer needs. Ashton-Potter recently was awarded a long-term contract with the USPS, which will result in increased volumes and require investment capital for additional automation and manufacturing equipment.

The Company has undertaken several initiatives to ensure that it has sufficient liquidity and capital resources. Proceeds from the sale of its remaining interest in Davis + Henderson ("D+H") were used to reduce long-term indebtedness with the repurchase of US$112.5 million of the outstanding 10.5% Senior Subordinated Notes ("Notes") due December 1, 2006 at 89% of the original principal amount. In addition, the Company negotiated an amended credit facility for up to US$40 million, of which US$25 million has been committed. This facility has a term consisting of one year plus a 364-day revolver, with the option, subject to certain consents, of a one-year extension at each anniversary date.

During 2002, Maxxcom reached agreements with its lenders to amend certain provisions of its senior credit facility and subordinated secured debenture, providing it with greater flexibility in a difficult environment. These amendments were agreed to in conjunction with a commitment by MDC to subscribe for an additional $25 million worth of Maxxcom common shares and a reduction in the exercise price of approximately 1.35 million warrants to acquire Maxxcom common shares, granted to the subordinated secured debenture holders in 2001, from $9.00 per share to $2.50 per share. Pursuant to the terms of the Maxxcom senior credit agreement, as amended, the maximum facility is $60 million until September 30, 2003, at which time it will be reduced to $58.1 million, and thereafter, by a further $7 million per quarter until maturity in March 2005.

Financial Performance

Sales

Consolidated sales for the year totaled $943.3 million, a decline of $169.9 million, or 15% from the $1.113 billion reported in 2001 as a result of divestitures made in the Secure Transactions Division. Excluding the revenues of operations that have been disposed, year-over-year consolidated revenue growth of $7.2 million or 1% was achieved.

The remaining operations of the Secure Transactions Division generated revenues of $264.0 million, an increase of $4.5 million or 2% over 2001. Each of the cheque, card and ticket groups contributed to this growth which was partially offset by a reduction of revenue from the stamp operations. Custom Direct, the U.S. cheque operation, experienced a dramatic increase in Internet and call center sales and launched a new fraud protection service which contributed to an increase in average order values. Strong revenue growth of the card group was due primarily to an effort to expand commercial applications resulting in a significant new customer in the U.S. broadcasting market. The ticket group worked diligently throughout the year to successfully restore sales that were negatively impacted by a reduction in airline volumes since September 2001.

Maxxcom revenues grew to $599.6 million for the year ended December 31, 2002, an increase of $2.8 million over the prior year. During the first half of 2002, Maxxcom continued to suffer from a decline in demand experienced throughout the marketing communications industry commencing in 2001. However, during the second half of the year, new business wins, combined with a general increase in advertising spending, resulted in an increase in revenues of $17.7 million or 6% compared to the second half of 2001.

Gross Profit

Gross profit for the year was $453.2 million compared to $555.0 million in 2001, a decrease of 18% or $101.8 million. Of the decrease, $94.5 million resulted from the Secure Transactions Division with the remaining $7.3 million from Maxxcom. Gross margin decreased to 48.0% from 49.9% in 2001, primarily the result of a decline experienced by Maxxcom.

Financial Performance *(continued)*

Gross profit of the Secure Transactions Division was $187.1 million for 2002, a decline of $94.5 million or 33% from the $281.5 million last year, with a slight decrease in gross margin from 54.5% in 2001 to 54.4% in the current year. Excluding the impact of divested operations, gross profit of the Secure Transactions Division increased by $8.8 million or 6% over the prior year to $149.1 million.

Maxxcom's gross profit, at $266.1 million for the year, decreased $7.3 million or 3% compared to the previous year. While the total gross profit for 2002 declined over 2001, Maxxcom's performance improved in the latter part of 2002, particularly in the fourth quarter where gross profit increased by $4.9 million or 7% over the same period in 2001. Gross margin of this division decreased to 44.4% from 45.8% last year, due primarily to competitive pricing which generally reduced the profit margins realized.

Operating Expenses

The Company incurred a total of $373.4 million in operating expenses for the year, a decrease of $63.2 million from the $436.6 million incurred in 2001. The decrease was attributable to the reduction in the number of business units and to the implementation of cost-cutting initiatives throughout the remaining operations of the Secure Transactions Division and Maxxcom as a result of the restructuring plan commenced in the third quarter of 2001. Operating expenses as a percentage of sales increased slightly from 39.2% to 39.6%.

The Secure Transactions Division reported operating expenses of $134.1 million in 2002, a reduction of 30% or $56.0 million compared to $190.1 million in the prior year, due primarily to the divestitures completed during the year. Operating expenses as a percentage of sales increased to 39.0% in 2002 compared to 36.9% in the prior year, but for the ongoing operations improved to 43.5% from 44.3% in 2001.

Maxxcom's operating expenses decreased by $7.2 million or 3% to $239.3 million in 2002 from $246.6 million in 2001. The decrease reflected the impact of restructuring initiatives particularly related to staff and occupancy costs, partially offset by $1.9 million of professional fees and severance costs incurred in connection with continuing efforts to improve the operating structure and long-term liquidity of the business.

Operating Income before Other Income (Charges)

On a consolidated basis, operating income before other income (charges) was $79.8 million for the year. The decrease of $38.5 million or 33% from the $118.3 million achieved in 2001 was the result of dispositions in the Secure Transactions Division. Operating margin decreased from 10.6% of sales last year to 8.5% of sales in 2002. On a normalized basis, excluding the results related to those operations which were exited during the year, operating income improved $8.6 million or 16% to $61.0 million and operating margin increased to 7.0% from 6.1% in 2001.

The Secure Transactions Division contributed operating income of $53.0 million, a decrease of $38.4 million or 42% from $91.5 million reported last year. An $8.7 million improvement in operating profits from ongoing operations was more than offset by the $47.1 million decrease that can be attributed to the divestment of D+H, A.E. McKenzie Co. Inc., The House of Questa, Spectron and the Canadian packaging operations in 2002, and certain e-commerce activities that were exited late in 2001. Excluding the divested operations, operating income for the division as a percentage of sales increased significantly to 12.6% of sales in 2002 from 9.4% of sales in 2001 primarily attributable to the Custom Direct and Metaca operations.

For Maxxcom, the effects on profit of competitive pricing pressures were almost offset by increased revenues and an improvement in operating efficiency due to a reduction in infrastructure. Operating income before other items decreased $0.1 million to $26.8 million from the $26.9 million achieved in 2001. Operating income as a percentage of sales declined to 4.3% compared to 4.5% in the prior year.

Restructuring, Dispositions and Other Charges

The net gain on asset dispositions and other charges for the year was $155.1 million compared to a net loss of $91.6 million in 2001.

In the third quarter of 2001, the Company announced its plan to streamline and to maximize efficiencies in every business and focus management attention and resources by reducing the number of businesses and diverse international locations in which the Company operated. Restructuring charges of $188.0 million were recorded: $173.8 million by the Secure Transactions Division and $14.2 million by Maxxcom. Also

in 2001, the Company completed the disposition of a 45.45% interest in the Canadian cheque printing operations of D+H, resulting in a gain of disposal of assets of $96.4 million.

In 2002, the gain on asset dispositions and other charges recorded by the Secure Transactions Division of $156.0 million was attributable primarily to the sale of the remaining interest in D+H and to the repurchase of US$112.5 million of Notes at 89% of the original principal amount during the first half of the year. In connection with the 2001 restructuring plan, the dispositions of A.E. McKenzie Co. Inc., Ashton-Potter Packaging, The House of Questa and Spectron were all concluded in 2002. Cash charges of approximately $8.1 million were also incurred in the fourth quarter in connection with the efforts to launch the initial public offering of the U.S. cheque operations through Custom Direct Income Fund, including the settlement of a supply contract negotiation. The income trust offering was postponed due to unfavorable market conditions, but was refiled as markets improved at the end of the first quarter of 2003.

For Maxxcom, the loss on asset dispositions and other charges totaled $0.9 million for the year and related primarily to a fourth quarter writedown due to the closure of certain non-core marketing services offices.

Unrealized Foreign Exchange Gain (Loss)

The 2001 financial statements have been restated to recognize an $18.7 million unrealized foreign exchange loss, in accordance with the Canadian Generally Accepted Accounting Principles ("GAAP") recommendations adopted by the Company effective January 1, 2002, that require exchange gains or losses on translation of non-hedged long-term monetary assets and liabilities to be included in the determination of net income for the period. Prior to January 1, 2002, MDC deferred and amortized foreign exchange gains and losses related to its U.S. dollar denominated Notes over the life of the Notes in accordance with GAAP at that time. The unrealized foreign exchange gain for the first six months of 2002 amounted to $6.7 million.

Effective July 1, 2002, management designated the remaining Notes as a hedge against the foreign exchange exposure of the U.S. Secure Transactions operations. The hedge was applied on a prospective basis from the effective date whereby any foreign exchange translation adjustment of the Notes will reduce any offsetting foreign exchange translation adjustment of the U.S. operations, the net of which is reflected in the cumulative translation account within shareholders' equity.

Amortization

Consolidated amortization was $25.5 million, representing a decrease of $11.0 million or 30% from the previous year that was primarily attributable to the reduction in the asset base of the Company due to dispositions and the writedown of assets associated with non-core businesses of the Secure Transactions Division in the third quarter of 2001. Amortization for the comparative year has been restated to reflect the retroactive treatment given to the change in accounting policy required to comply with new GAAP requirements with respect to the treatment of foreign currency gains and losses on non-hedged long-term monetary assets and liabilities as previously noted.

Interest, Net

On a consolidated basis, interest expense, at $28.0 million in 2002 compared to $52.7 million in 2001, decreased 47% or $24.7 million. This decrease was primarily due to the lower levels of long-term indebtedness outstanding during the year as compared to 2001 and lower rates of interest on floating rate indebtedness.

Income (Loss) before Income Taxes, Goodwill Charges and Minority Interest

For the year ended December 31, 2002, income before income taxes, goodwill charges and minority interest was $188.1 million as compared to a loss of $81.1 million in the prior year. The asset dispositions of the Secure Transactions Division, combined with the unrealized foreign exchange gains and a reduction of interest expense recorded in 2002 versus the restructuring charges and foreign exchange loss recognized in 2001, primarily account for the variance.

Financial Performance *(continued)*

Income Tax Expense (Recovery)

Income tax expense for 2002 was $35.1 million, producing an effective tax rate of 18.6% of income before income taxes, goodwill charges and minority interest. In 2001, there was an income tax recovery of $28.7 million and the Company's effective tax rate was 35.3%. The low 2002 tax rate was significantly aided by the divestitures completed.

Goodwill Charges

Goodwill charges were $67.2 million for 2001 and included a $50.5 million charge for the writedown of goodwill related to businesses considered non-core in the restructuring plan initiated in that year. No goodwill charges were recorded in 2002 as a result of the adoption, on a prospective basis, of the new accounting recommendations effective January 1, 2002, with respect to goodwill and other intangibles. Under these standards, goodwill is no longer amortized but tested for impairment annually. A charge to opening retained earnings of $99.5 million was recorded as a result of transitional goodwill impairment tests conducted by the Company. The annual impairment tests performed in October 2002 determined that no further provision for impairment was required.

Minority Interest

The charge for minority interest in 2002 was $4.7 million compared to a recovery in 2001 of $6.6 million. $3.7 million of the 2002 charge was related to the minority interests' share in income from D+H, with the remainder related to Maxxcom and Metaca. The recovery in 2001 accounted for the minority interests' share in losses incurred at Maxxcom, CyberSight and Metaca.

Net Income (Loss) for the Year

Net income for the year was $148.3 million, compared to a loss of $153.1 million in the previous year. Excluding goodwill charges and the loss from discontinued operations from the 2001 results, net income for the year improved by $194.2 million. This was due primarily to the gains on asset dispositions and unrealized foreign exchange combined with improved operating results from remaining business units and a decrease in interest costs which more than offset the decrease in operating income due to the sale of several businesses.

Liquidity and Capital Resources

Working Capital

Working capital, at negative $5.5 million on December 31, 2002, decreased $30.0 million from $24.5 million at the end of 2001 and $26.8 million from the third quarter of 2002. The year-over-year decrease is primarily attributed to the sale of D+H and other non-core assets, initiatives taken to reduce working capital at Maxxcom, and the fourth quarter accrual by Maxxcom of $34.8 million of deferred purchase price obligations. During the year, accounts receivable and inventory decreased by $36.4 million and $12.2 million, respectively, due to dispositions and improved accounts receivable collections at Maxxcom. Current future tax benefits declined by $28.0 million as they were applied to the gain on asset dispositions in 2002. Accounts payable and accrued liabilities decreased $36.4 million despite a $10.1 million increase in deferred purchase price obligations at the end of 2002 as compared to the prior year. Deferred revenue decreased by $6.3 million and the current portion of long-term indebtedness decreased by $5.6 million.

The Company has a senior credit facility of up to US$40 million, of which US$25 million is committed, with a term consisting of one year plus a 364-day revolver, with the option, subject to certain consents, of a one-year extension at each anniversary date. Additionally, Maxxcom has an operating credit facility of $60 million at December 31, 2002. The Maxxcom facility will reduce to $58.1 million at September 30, 2003 and by a further $7 million each quarter until maturity in March 2005.

As of December 31, 2002, the Company, including Maxxcom, had utilized approximately $39 million under these credit facilities in the form of drawings and letters of credit compared to $73 million at the end of 2001. Cash and undrawn available bank credit facilities to support future cash requirements, as at December 31, 2002, were approximately $120 million.

Long-term Indebtedness

At December 31, 2002, total long-term indebtedness including the current portion was $251.8 million, representing a significant decrease of $287.7 million from the $539.5 million reported in the previous year. During the year, $293.5 million of long-term indebtedness was repaid primarily through the repurchase of US$113.6 million of the outstanding Notes, the elimination of the $80.0 million D+H term facility due to the

sale of that operation, the repayment of the MDC credit facility, the 6% convertible subordinated notes and $3.0 million of indebtedness related to the U.K. stamp operations and a reduction of senior indebtedness at Maxxcom. The above reductions were partially offset by an increase of $14.4 million in long-term indebtedness due to a reallocation from other paid-in capital related to the Company's 7% convertible debentures and $8.9 million of new indebtedness that was incurred primarily by Maxxcom.

The following table summarizes the Company's exposure to interest and exchange rate risks by providing the amount of long-term indebtedness outstanding at December 31, 2002 in the currency in which it is denominated and the amounts that are subject to floating versus fixed rates of interest:

Interest	CDN $	US $	UK £	AUS $
Fixed	22,684,000	88,434,000	14,000	1,670,000
Floating	45,465,000	27,007,000	—	—

Deferred Acquisition Consideration

Although capital is not generally required to fund working capital needs, it is required by the Company to facilitate acquisitions and periodic capital expenditures required by its operations. In addition, capital is required by Maxxcom, as its acquisitions typically include commitments for contingent deferred purchase obligations ("Earnouts") and in certain circumstances, commitments to purchase minority shareholdings ("Puts"). Earnouts are generally payable annually over a three-year period following the acquisition date and are contingent upon the acquired businesses satisfying certain financial operating criteria. Based on the operating results of the relevant entities, $34.8 million of Earnout obligations was accrued in 2002 and will be payable in 2003. Of the $34.8 million, approximately $28.8 million is payable in cash, and $6.6 million may be satisfied by the issuance of Maxxcom common shares. For acquisitions completed prior to 2003, there are no further material additional Earnout obligations beyond those noted above.

Put Rights of Subsidiaries' Minority Shareholders

Owners of interests in certain of Maxxcom's subsidiaries have the right in certain circumstances to require Maxxcom to acquire the remaining ownership interests held by them. The owners' ability to exercise these rights is subject to the satisfaction of certain conditions, such as the provision of a period of notice in advance of exercising such right or the installation of successor management in the subsidiary, and in some cases is related to the employment status of the holder of the right. In addition, these rights cannot be exercised prior to specified staggered exercise dates. The exercise of these rights at their earliest contractual date would result in obligations of Maxxcom to fund the related amounts during the 2003 to 2009 period. Except as described below, it is not determinable, at this time, if or when the owners of these rights will exercise all or a portion of these rights.

The amount payable by Maxxcom in the event such rights are exercised is dependent on various valuation formulas and on future events, such as the average earnings of the relevant subsidiary through that date of exercise, the growth rate of the earnings of the relevant subsidiary during that period, and, in most cases, the currency exchange rate at the date of payment.

Management estimates, assuming that the subsidiaries perform over the relevant future periods at their 2002 earnings levels, that these rights, if all exercised, could require Maxxcom, in future periods, to pay an aggregate of approximately $83 million to the owners of such rights to acquire the remaining ownership interests in the relevant subsidiaries. Of this amount, Maxxcom is entitled, at its option, to fund approximately $10 million by the issuance of Maxxcom common shares.

The ultimate amount payable in the future relating to these transactions will vary because it is dependent on the future results of operations of the subject businesses and the timing of when these rights are exercised. The actual amounts Maxxcom pays will be different from these estimates and these differences could be material.

If these rights were exercised in aggregate, Maxxcom would acquire incremental ownership interests in the relevant subsidiaries entitling Maxxcom to additional annual operating income before other charges estimated, using the same earnings basis used to determine the aggregate purchase price noted above, to be approximately $12 million. The actual amounts Maxxcom acquires will be different from this estimate and these differences could be material.

Liquidity and Capital Resources *(continued)*

Maxxcom expects to fund these obligations, if and when they become due, through the issuance of Maxxcom common shares to the interest holders pursuant to existing contractual rights described above and through the use of cash derived from operations and normal market structured credit facilities, although there can be no certainty that Maxxcom will be able, to the extent required, to access such a source of capital in advance of or concurrently with such obligations becoming due.

Of the estimated aggregate amount, approximately $5 million relates to rights exercisable in 2003 associated with three subsidiaries. Shareholders of two subsidiaries have given one-year advance notice of their intent to exercise their rights to require Maxxcom to purchase one-third of their total respective interests in the related subsidiaries. It is estimated that these obligations will be approximately $3.5 million. Should these two shareholders ultimately exercise the right as indicated, Maxxcom will be required to fund these obligations in the fourth quarter of 2003. The actual amounts that Maxxcom will pay will be different from these estimates, and these differences may be material. Maxxcom expects to fund the acquisition of these interests, if and when they become due, through the use of cash derived from operations and bank borrowings. Accordingly, the acquisition of these equity interests will not be recorded in the Company's financial statements until ownership is transferred.

Long-term Indebtedness to Shareholders' Equity

The Company's long-term indebtedness at December 31, 2002 was $251.8 million and total shareholders' equity amounted to $152.6 million. The ratio of long-term indebtedness to shareholders' equity decreased to 1.65 to 1 at the end of 2002 from 4.86 to 1 at the end of 2001, as a result of the reduction in long-term indebtedness and an increase in shareholders' equity from earnings in the year that more than offset the transitional goodwill impairment charge to opening retained earnings.

Repayment of Long-term Indebtedness

Approximately $246.0 million of long-term indebtedness at December 31, 2002 is due within the next five years; 55% of that or $136.4 million is in relation to the Notes due December 1, 2006. Management anticipates that this indebtedness will be repaid using cash flow from operations.

Cash Flows

Cash flow from operations, before changes in non-cash working capital, was $37.6 million in 2002, representing a decrease of $115.1 million over the $152.7 million generated in 2001, reflecting the impact of lower revenues and operating income before other charges combined with the payment of $5.6 million of previously accrued restructuring charges.

Cash flows from investing activities were $242.6 million for 2002 compared to 2001 cash expenditures of $82.0 million. The proceeds from the dispositions of D+H, Ashton-Potter Packaging, A.E. McKenzie Co. Inc. and The House of Questa, net of the investing activities of Maxxcom and Earnout payments, amounted to $257.9 million. Capital and other assets expenditures in 2002 declined significantly from the prior year due to the sale of D+H and other non-core assets combined with reduced capital expenditures at the remaining operations.

Cash flows used in financing activities include reductions to long-term indebtedness in 2002 of $293.5 million, primarily the result of the repayment of the $5.0 million 6% convertible subordinated notes in March 2002, the repurchase of US$113.6 million of the Notes, the elimination of the $80.0 million credit facility related to D+H in the second quarter and a reduction in the senior indebtedness of Maxxcom, offset by $8.9 million of new indebtedness that was incurred primarily by Maxxcom.

Risks and Uncertainties

Customer Concentration

Maxxcom **–** The strategy has been to acquire ownership stakes in diverse marketing communications businesses to minimize the effects that might arise from the loss of any one client or executive. However, management succession is very important to the ongoing results of the division because, as in any service business, the success of the Company is dependent upon the leadership of key executives and management personnel. Accordingly, Maxxcom's top 10 clients continue to represent less than one-third of gross income; however, if key executives were to leave, the relationships they have with Maxxcom's clients could be lost.

Management has attempted to mitigate the risks with respect to these successions through various employment contracts, shareholder agreements, non-competition and non-solicitation agreements.

Secure Transactions Division – With the divestiture of the Canadian cheque printing operation, the Company has reduced its historic exposure to the risks associated with sales to financial institutions. Custom Direct, the Company's U.S. cheque printing business, sells its products directly to consumers. Custom Direct currently has a diverse customer database of over 21 million customers.

The postage stamp business derives a significant portion of its revenues from government contracts. Contracts are generally awarded in a competitive bidding process. The loss of these contracts could have a material adverse effect on the sales and earnings of the division.

Competition

Each of the Company's divisions operates in a highly competitive environment.

Maxxcom competes in an industry characterized by numerous firms of varying sizes, with no single firm or group of firms having a dominant position in the marketplace. Competitive factors include creative reputation, management, personal relationships, quality and reliability of service, and expertise in particular niche areas of the marketplace. Although the price of services may be a competitive factor in obtaining new clients, it is generally of lesser importance once a client relationship has been established.

Additionally, there is a trend of large multinational organizations consolidating their marketing communications providers so that one firm provides these services to all international locations. As a result, marketing communications providers may experience the loss of clients or projects. To the extent that Maxxcom may lose business, and is unsuccessful in replacing it, the Company's business, financial condition or operating results may be affected in a materially adverse manner.

The Company's Secure Transactions Division competes primarily on the basis of quality, customer service, design capability and price. A number of the Company's competitors have greater resources than those available to the Company which may enable them to aggressively pursue the business of the Secure Transactions Division.

Currency Fluctuations

Although the Company's financial results are reported in Canadian dollars, a significant portion of its sales and operating costs are denominated in U.S. dollars. Furthermore, an increasing portion of the Company's sales and operating costs are expected to be in U.S. currency. As a result, fluctuations in the exchange rate between the Canadian dollar and other currencies, particularly the U.S. dollar, may affect the Company's financial results and the Company's competitive position. The Company generally manages its exposure to foreign currency risk by matching its debt charges with cash flows of a common currency, and where appropriate, may hedge currency risks through foreign exchange contracts and currency swap agreements. There can be no assurance that such measures will be successful; however, management will attempt to mitigate these risks to the fullest extent available.

Economic Uncertainty

The marketing communications industry is cyclical and is subject to the effects of economic downturns. The Company is also exposed to the risk of clients changing their business plans and/or reducing their marketing budgets or of poor performance by one of its agencies. As a result, the Company's business, financial condition and operating results may be affected in a materially adverse manner.

Alternative Forms of Payment

Consumers and businesses in the North American marketplace have recently been introduced to various electronic and other forms of payment. The Company cannot conclusively determine what effect these alternate forms of payment may have on future average cheque usage by consumers or businesses. There can be no assurance that such factors will not have a material adverse effect on the future volumes of cheques produced by the Company or its revenues. However, Custom Direct operates exclusively in the growing direct-to-consumer market, which offers customers significantly more design selections at substantial discounts than the traditional method of ordering cheques directly from financial institutions.

Risks and Uncertainties *(continued)*

Access to Efficient Marketing Channels

To secure new cheque orders, Custom Direct depends on its ability to secure adequate advertising media placements at acceptable rates and to achieve certain response rates on its advertising. Custom Direct currently operates under advertising contracts of varying terms which it has secured with major suppliers of these services. There can be no assurances regarding the future cost and/or availability of suitable advertising media.

Access to Capital and Future Liquidity

In addition to internally generated funds, the Company relies upon access to credit facilities and other forms of financing for its business. The Company will therefore need to raise capital through the incurrence of additional long-term or short-term indebtedness or the issuance of additional equity securities. Although the Company has been able to obtain such financing in the past, there is no assurance that the Company will be able to refinance current or future indebtedness on terms that are acceptable to the Company.

The incurrence of additional indebtedness may result in increased interest expense or decreased net income, and the issuance of additional equity securities could result in dilution of existing equity positions.

New Accounting Pronouncements

Impairment of Long-Lived Assets

The Canadian Institute of Chartered Accountants (the "CICA") has issued new accounting standards for impairment of long-lived assets. These standards require that an impairment loss be recognized on long-lived assets equal to the amount by which the carrying value of the asset exceeds its fair value when the carrying amount of an asset exceeds the sum of the undiscounted cash flows expected to result from its use and eventual disposition. This standard will be adopted by the Company on a prospective basis effective January 1, 2003. The Company has not determined the impact of the adoption of these standards on its consolidated financial statements.

Disposal of Long-Lived Assets and Discontinued Operations

In December 2002, the CICA issued new accounting standards, which provide new guidance on accounting for the disposal of long-lived assets and discontinued operations. Under these standards, long-lived assets which are "held for sale" are presented separately in current assets, non-current assets, current liabilities and non-current liabilities, and measured at the lower of the carrying amount or fair value less costs to sell, and are not depreciated. Additionally, the new standards provide a broader definition for discontinued operations that allows components of an entity, rather than just business segments, to be presented as discontinued. This standard will be adopted by the Company on a prospective basis effective May 1, 2003. The Company has not determined the impact of the adoption of these standards on its consolidated financial statements.

Outlook

Following the Company's 2001 strategic plan, in 2002, management focused its resources on the Company's core businesses, and also capitalized on market opportunities to dispose of assets and reduce indebtedness.

Maxxcom, Canada's leading marketing and communications services organization, and Custom Direct, which serves the growing U.S. direct-to-consumer cheque market, are currently the principal drivers of MDC. However, management continues to explore opportunities to create and realize value for its shareholders, and with improved market conditions, the Company has refiled its preliminary prospectus in connection with a public offering of Custom Direct through Custom Direct Income Fund.

Although economic conditions remain highly uncertain, Maxxcom's fourth quarter indicates there are signs of a modest recovery in the marketing communications sector, although management expects clients to continue to be sensitive to pricing with a shift to more directly measurable services. Sales and operating profits of Maxxcom are expected to continue to grow from the high profile awards and new client engagements earned by Maxxcom's flagship agency, Crispin Porter + Bogusky, and from actions taken to streamline the operation and to position it for growth.

The Company's U.S. cheque printing operation is expected to deliver increased sales and profits principally due to its continued increases in average order values, increased Internet and telephone orders, and other operational improvements, including the repatriation to in-house production of one of its core brands

in August 2003. Custom Direct has sufficient capacity, with a nominal amount of capital expenditure, to absorb the increased volume.

Through the card group, the Secure Transactions Division will continue to provide outsourced business services to financial institutions. The Company's investment in the high growth areas of the smart card industry and the completion of the operational restructuring are expected to restore profitability and produce greater returns.

Revenues and profits at Ashton-Potter have the potential to increase substantially with the recent award of a significant long-term contract by the USPS. This contract award positions Ashton-Potter as one of the largest producers of postage stamps in the world. The USPS awarded production of all U.S. postage stamp products to three successful suppliers. The three master contracts awarded are for the printing, finishing and packaging of U.S. postage stamps with an initial base term of four years and have an aggregate estimated value (for all three contractors) of US$229 million. In addition, there are three two-year options to the base contracts for a potential contractual term of 10 years. If all the option years are exercised, the potential value of the three contracts over the 10 years would be US$572.5 million.

Mercury will continue to leverage its strong relationships with major airlines and transit authorities, while exploring other opportunities to diversify its client base and to develop new applications for its target markets.

Management is encouraged by the progress made over the past year, and believes that the Company's core operations form a strong platform from which to grow its business in 2003 and beyond.

Forward-Looking Statements

The Company and its representatives periodically make written and spoken forward-looking statements, including those contained in this Annual Report. By their nature, forward-looking statements are subject to risks and uncertainties that could result in actual performance being materially different from anticipated results. The Company cautions readers, when making decisions, to consider the risks and uncertainties of forward-looking statements.

Selected Consolidated Quarterly Financial Information

(in thousands of Canadian dollars, except per share amounts)

	First Quarter ended March 31		Second Quarter ended June 30		Third Quarter ended September 30		Fourth Quarter ended December 31	
	2002	2001 (restated)	**2002**	2001 (restated)	**2002**	2001 (restated)	**2002**	2001 (restated)
Sales	**271,305**	285,052	**220,972**	279,653	**221,037**	262,343	**230,016**	286,224
Income (loss from) continuing operations	**12,135**	(8,718)	**128,344**	8,854	**5,498**	(154,083)	**2,336**	40,873
Loss from discontinued operations	**—**	—	**—**	(40,000)	**—**	—	**—**	—
Net income (loss) for the period	**12,135**	(8,718)	**128,344**	(31,146)	**5,498**	(154,083)	**2,336**	40,873
Earnings (loss) per share								
Continuing operations								
Basic	**$ 0.69**	$ (0.55)	**$ 7.56**	$ 0.49	**$ 0.30**	$ (9.14)	**$ 0.12**	$ 2.38
Fully diluted	**$ 0.45**	$ (0.55)	**$ 5.43**	$ 0.42	**$ 0.21**	$ (9.14)	**$ 0.10**	$ 1.24
As reported								
Basic	**$ 0.69**	$ (0.55)	**$ 7.56**	$ (1.88)	**$ 0.30**	$ (9.14)	**$ 0.12**	$ 2.38
Fully diluted	**$ 0.45**	$ (0.55)	**$ 5.43**	$ (1.88)	**$ 0.21**	$ (9.14)	**$ 0.10**	$ 1.24

Management's Report

The accompanying consolidated financial statements have been prepared by management and approved by the Board of Directors of the Company. Management is responsible for the preparation and presentation of these financial statements and all the financial information contained within this Annual Report within reasonable limits of materiality. The financial statements have been prepared in accordance with generally accepted accounting principles in Canada. In the preparation of these statements, estimates are sometimes necessary because a precise determination of certain assets and liabilities is dependent on future events. Management believes such estimates have been based on careful judgments and have been properly reflected in the accompanying consolidated financial statements. The financial information throughout the text of this Annual Report is consistent with that in the financial statements.

To assist management in discharging these responsibilities, the Company maintains a system of internal control which is designed to provide reasonable assurance that its assets are safeguarded, that transactions are executed in accordance with management's authorization and that the financial records form a reliable base for the preparation of accurate and timely financial information.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards and applicable laws, and for the maintenance of proper standards of conduct in its activities.

BDO Dunwoody LLP, Chartered Accountants, are appointed by the shareholders and have audited the consolidated financial statements in accordance with generally accepted auditing standards. Their report outlines the nature of their audit and expresses their opinion on the consolidated financial statements of the Company.

Annually, the Board of Directors appoints an Audit Committee composed of at least three directors who are not members of management. The Audit Committee meets periodically with management and the auditors to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues. It is responsible for reviewing the annual and interim consolidated financial statements and the report of the auditors. The Audit Committee reports the results of such review to the Board and makes recommendations with respect to the appointment of the Company's auditors. In addition, the Board may refer to the Audit Committee on other matters and questions relating to the financial position of the Company and its affiliates.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and for approving the consolidated financial statements for presentation to shareholders.

Miles S. Nadal

Miles S. Nadal
Chairman, President & Chief Executive Officer

Peter M. Lewis
Executive Vice-President & Chief Financial Officer

Auditors' Report

To the Shareholders of MDC Corporation Inc.

We have audited the consolidated balance sheets of MDC Corporation Inc. as at December 31, 2002, 2001 and 2000 and the consolidated statements of retained earnings (deficit), operations and cash flows for each of the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2002, 2001 and 2000 and the results of its operations and its cash flows for each of the years then ended in accordance with generally accepted accounting principles in Canada.

BDO Dunwoody LLP

Chartered Accountants
Toronto, Ontario
February 17, 2003

Consolidated Balance Sheets

(in thousands of Canadian dollars)

December 31,	2002	2001 Restated (Note 1)	2000 Restated (Note 1)
Assets			
Current			
Cash and cash equivalents	**$ 59,615**	$ 59,301	$ 61,031
Accounts receivable (Note 4)	**106,419**	142,769	157,931
Inventory	**11,050**	23,282	46,191
Prepaid expenses and sundry	**9,886**	11,969	42,231
Future income taxes	**—**	28,000	—
	186,970	265,321	307,384
Capital and other assets (Note 5)	**126,155**	166,439	280,118
Goodwill (Note 6)	**292,861**	462,746	509,853
	$ 605,986	$ 894,506	$1,097,355
Liabilities and Shareholders' Equity			
Current			
Accounts payable and accrued liabilities	**$ 168,550**	$ 204,994	$ 224,775
Deferred revenue	**17,517**	23,771	16,325
Current portion of long-term indebtedness (Note 7)	**6,450**	12,049	9,879
	192,517	240,814	250,979
Long-term indebtedness (Note 7)	**245,339**	527,468	558,622
Future income taxes	**—**	—	20,645
	437,856	768,282	830,246
Minority interest	**15,499**	15,253	25,356
Shareholders' equity			
Share capital (Note 8)	**144,542**	142,599	140,583
Other paid-in capital (Note 9)	**38,145**	51,943	47,956
Cumulative translation adjustment (Note 10)	**20,139**	13,892	(4,618)
Retained earnings (deficit)	**(50,195)**	(97,463)	57,832
	152,631	110,971	241,753
	$ 605,986	$ 894,506	$1,097,355

The accompanying Summary of Significant Accounting Policies and Notes are an integral part of these financial statements.

On behalf of the Board:

Thomas N. Davidson
Director

Guy P. French
Director

Consolidated Statements of Operations

(in thousands of Canadian dollars, except per share amounts)

For the years ended December 31,	2002	2001 Restated (Note 1)	2000 Restated (Note 1)
Sales	**$ 943,332**	$1,113,272	$1,166,782
Cost of sales	**490,117**	558,295	604,165
Gross profit	**453,215**	554,977	562,617
Operating expenses	**373,378**	436,633	435,836
Operating income before other income (charges)	**79,837**	118,344	126,781
Other income (charges)			
Restructuring, dispositions, and other charges (Note 11)	**155,053**	(91,612)	24,389
Unrealized foreign exchange gain (loss)	**6,702**	(18,660)	(11,460)
Amortization	**(25,481)**	(36,521)	(37,187)
Interest, net	**(28,018)**	(52,698)	(49,458)
	108,256	(199,491)	(73,716)
Income (loss) before income taxes, goodwill charges and minority interest	**188,093**	(81,147)	53,065
Income taxes (recovery) (Note 12)	**35,054**	(28,663)	6,599
Income (loss) before goodwill charges and minority interest	**153,039**	(52,484)	46,466
Goodwill charges, net of income tax recovery of $Nil (2001 – $3,576, 2000 – $1,634)	**—**	67,181	11,703
Minority interest (recovery)	**4,726**	(6,591)	2,708
Income (loss) from continuing operations	**148,313**	(113,074)	32,055
Loss from discontinued operations (Note 13)	**—**	(40,000)	—
Net income (loss) for the year	**$ 148,313**	$ (153,074)	$ 32,055
Earnings per share (Note 14)			
Income (loss) from continuing operations			
Basic	**$ 8.68**	$ (6.83)	$ 1.73
Fully diluted	**$ 5.87**	$ (6.83)	$ 1.49
Net income (loss)			
Basic	**$ 8.68**	$ (9.20)	$ 1.73
Fully diluted	**$ 5.87**	$ (9.20)	$ 1.49

The accompanying Summary of Significant Accounting Policies and Notes are an integral part of these financial statements.

Consolidated Statements of Retained Earnings (Deficit)

(in thousands of Canadian dollars)

For the years ended December 31,	2002	2001	2000
Retained earnings (deficit), beginning of year as previously reported	**$ (73,654)**	$ 67,927	$ 28,689
Impact of change in accounting for foreign currency translation (Note 1)	**(23,809)**	(10,095)	(868)
Impact of transitional goodwill impairment charge (Note 1)	**(99,513)**	—	—
Opening retained earnings (deficit), as restated	**(196,976)**	57,832	27,821
Net income (loss) for the year	**148,313**	(153,074)	32,055
	(48,663)	(95,242)	59,876
Allocation to other paid-in capital, net of income tax recovery of $964 (2001 – $1,766, 2000 – $1,626)	**(1,532)**	(2,221)	(2,044)
Retained earnings (deficit), end of year	**$ (50,195)**	$ (97,463)	$ 57,832

The accompanying Summary of Significant Accounting Policies and Notes are an integral part of these financial statements.

Consolidated Statements of Cash Flows

(in thousands of Canadian dollars)

For the years ended December 31,	2002	2001 Restated (Note 1)	2000 Restated (Note 1)
Cash provided by (used in)			
Operating activities			
Income (loss) from continuing operations	**$ 148,313**	$ (113,074)	$ 32,055
Items not involving cash			
Restructuring, dispositions and other charges	**(163,177)**	166,847	17,811
Restructuring, dispositions and other charges – accrued (paid)	**(5,588)**	11,866	—
Unrealized foreign exchange loss (gain)	**(6,702)**	18,660	11,460
Goodwill writedown	**—**	50,517	—
Amortization	**25,481**	56,761	50,524
Future income taxes	**33,782**	(32,884)	(7,255)
Interest capitalized	**5,265**	—	—
Minority interest and other	**268**	(5,999)	5,088
	37,642	152,694	109,683
Changes in non-cash working capital	**3,609**	(5,206)	(4,985)
Cash flows from operating activities	**41,251**	147,488	104,698
Investing activities			
Proceeds on dispositions (acquisitions), net	**257,869**	(25,250)	(48,055)
Capital assets, net	**(12,679)**	(25,133)	(35,302)
Other assets, net	**(2,608)**	(31,643)	(38,704)
Cash flows from (used in) investing activities	**242,582**	(82,026)	(122,061)
Financing activities			
Short-term indebtedness	**—**	—	(3,192)
Proceeds on issuance of long-term indebtedness	**8,856**	135,722	63,148
Repayment of long-term indebtedness	**(293,535)**	(194,180)	(7,231)
Issuance of share capital	**—**	1,116	1,859
Repurchase of share capital	**—**	(10,300)	(14,966)
Cash flows from (used in) financing activities	**(284,679)**	(67,642)	39,618
Foreign exchange gain on cash held in foreign currencies	**1,160**	450	3,468
Increase (decrease) in cash and cash equivalents during the year	**314**	(1,730)	25,723
Cash and cash equivalents, beginning of year	**59,301**	61,031	35,308
Cash and cash equivalents, end of year	**$ 59,615**	$ 59,301	$ 61,031
Supplemental cash flow information			
Cash paid for interest	**$ 25,597**	$ 54,175	$ 51,530
Cash paid (recovered) for income taxes	**$ (597)**	$ 9,671	$ 9,900

The accompanying Summary of Significant Accounting Policies and Notes are an integral part of these financial statements.

Summary of Significant Accounting Policies

December 31, 2002, 2001 and 2000

Principles of Consolidation The financial statements include the accounts of the Company and any effectively controlled subsidiary companies, and are prepared in conformity with generally accepted accounting principles in Canada. Interests in joint ventures are recorded using the proportionate consolidation method. Acquisitions are consolidated from the effective date of acquisition with intercompany transactions and accounts eliminated upon consolidation.

Investments Investments in which the Company does not have control or have significant influence are valued at the lower of cost or market.

Inventory Inventory is valued at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis.

Customer Acquisition Costs The Company capitalizes costs for direct response advertising and expenses the costs over the period of expected future benefit. The expense corresponds to the expected sales cycle of the advertising material based on actual advertising responses.

Capital Assets Capital assets are recorded at cost. Amortization is provided as follows:

Buildings	4%–5% straight-line
Computer, furniture and fixtures	20%–50% declining balance
Machinery and equipment	10%–20% declining balance
Leasehold improvements	straight-line over term of the lease

Deferred Charges The Company capitalizes direct costs related to development of new products and services until the commencement of commercial operations, at which time all related costs are amortized on a straight-line basis over their estimated useful life.

Deferred Finance Costs Deferred finance costs are amortized over the term of the related indebtedness.

Future Income Taxes Effective January 1, 2001, the Company has adopted the liability method of tax allocation for accounting for income taxes. Under the liability method of tax allocation, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Foreign Currency Translation With the exception of the Company's foreign subsidiaries, foreign currency assets and liabilities carried at current prices are translated into Canadian dollars using the rate of exchange in effect at the year-end; other foreign currency assets and liabilities are translated using the rates of exchange in effect at the dates of the transaction; long-term monetary assets and liabilities with a fixed term which have been hedged are translated using the rate per the hedge agreements; revenue and expense items are translated at the average monthly rate of exchange for the year, except for amortization of capital and other assets, which is translated at the historical rates of the related assets. The asset and liability accounts of foreign subsidiaries self-sustaining operations are translated using the rate of exchange in effect at the year-end, and revenues and expenses are translated at the average monthly rates during the year.

The unrealized foreign exchange gains and losses on translation of the accounts of foreign subsidiaries are reflected as a separate component of shareholders' equity.

Effective January 1, 2002, the Company adopted the recommendations of the Canadian Institute of Chartered Accountants ("CICA") with respect to the accounting for foreign exchange gains or losses relating to translation of non-hedged long-term monetary assets and liabilities. Previously such gains or losses were deferred and amortized over the remaining term of the related assets or liabilities. The Institute now requires that exchange gains or losses arising on translation of all non-hedged monetary items be included in the determination of net income for the current period. The accounting policy change has been applied retroactively with restatement of prior periods as recommended by the CICA (see Note 1).

Effective July 1, 2002, management designated the Company's 10.5% U.S. Senior Subordinated Notes ("Notes") as a hedge against the foreign exchange exposure of the Secure Transactions U.S. operations.

The hedge is applied prospectively from the effective date whereby any foreign exchange translation adjustment of the Notes will reduce any offsetting foreign exchange translation adjustment of the U.S. operations, the net of which is reflected in the cumulative translation account within shareholders' equity.

All other foreign exchange gains and losses are included in net income or loss in the current period.

Goodwill

Goodwill represents the price paid for acquisitions in excess of the fair market value of net tangible assets acquired. Effective January 1, 2002, the Company adopted the recommendations of the CICA with respect to goodwill and other intangibles. These standards require that goodwill and other intangible assets determined to have indefinite lives are no longer amortized but tested for impairment on adoption of the standard and at least annually thereafter. Transitional impairment tests for goodwill were completed as at June 30, 2002 and, as a result, a transitional impairment loss was charged to opening retained earnings (see Note 1). Prior to 2002, the Company amortized goodwill on a straight-line basis over periods ranging from 10 to 40 years. Goodwill arising on acquisitions completed after June 30, 2001 was not amortized.

Retirement Plans

The current service cost of pension and other post-employment plans (such as medical and dental care, life insurance and compensated absences) is charged to income annually. Cost is computed on an actuarial basis using the projected benefit method and based on management's best estimates of investment yields, salary escalation and other factors. Adjustments resulting from plan amendments, experience gains and losses, or changes in assumptions are amortized over the remaining average service term of active employees.

Revenue Recognition

Revenue is recognized using the percentage of completion method with respect to contracts having a specified time period for the performance of the service. Percentage of completion is determined based on either (a) the fair value of the project at each particular stage relative to its total fair value on completion, or (b) costs incurred to date relative to the expected total costs to be incurred upon completion. Work in progress is estimated as the portion of revenue which has been earned but not billed. Customer billings in advance are recorded as deferred revenue. Potential losses, if any, on work in progress are provided for as soon as the possibility of a loss becomes apparent.

All other revenue is recorded when the service is completed and/or the product is delivered.

Financial Instruments

The Company's financial instruments consist of cash and short-term investments, accounts receivable, accounts payable and accrued liabilities, long-term indebtedness and derivative financial instruments. The Company has used derivative financial instruments to manage its exposure to market risks relating to interest rates and foreign currency exchange rates. At December 31, 2002, the Company was not party to any derivative financial instrument.

Credit Risk

The Company's financial assets that are exposed to credit risk consist primarily of cash, accounts receivable and derivative financial instruments. The Company, in its normal course of business, is exposed to credit risk from its customers.

Fair Value

The fair value of long-term indebtedness (see Note 7) that bears interest at fixed rates is based on its quoted market price or on discounted future cash flows using rates currently available for debt of similar terms and maturities if the quoted market price is not available. The fair value of other financial instruments, cash and short-term investments, accounts receivable, bank indebtedness and accounts payable and accrued liabilities, approximates carrying value due to their short-term maturities.

Cash and Cash Equivalents

The Company considers all cash and highly liquid investments purchased with an initial maturity of three months or less to be cash or cash equivalents.

The Company maintains its cash in bank deposit accounts that, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risks on cash and cash equivalents.

The assets acquired and the consideration given are as follows:

December 31,	2002	2001	2000
Net assets acquired, at fair value			
Assets, net of liabilities	$ 57	$ 6,862	$ 2,923
Goodwill	32,603	78,968	112,974
	$ 32,660	$ 85,830	$ 115,897
Consideration			
Cash and promissory notes	$ —	$ 38,274	$ 65,378
Class A shares issued	—	11,200	—
Additional consideration – current year acquisitions	—	970	24,261
Additional consideration – prior year acquisitions	32,045	22,096	20,097
Other acquisition costs	615	13,290	6,161
	$ 32,660	$ 85,830	$ 115,897

In addition to the consideration paid by the Company in respect of its acquisitions, additional consideration may be payable based on the achievement of certain threshold levels of earnings. Based on the current year's earnings, $34,839 (2001 – $19,804, 2000 – $44,981) of additional consideration was accrued related to current and prior year acquisitions and is reflected in accounts payable and accrued liabilities. Should specific conditions be met by certain acquired companies, approximately $3,155 of additional consideration would be accrued and paid in 2003.

3. Interest in Jointly Controlled Entity

The Company accounts for its 49% interest in Crispin Porter + Bogusky LLC, a jointly controlled entity, using the proportionate consolidation method. The following is the Company's proportionate share of the major components of the financial statements of the jointly controlled entity as at and for the years ended:

December 31,	2002	2001	2000
Balance Sheet			
Current assets	$ 20,356	$ 8,134	$ —
Long-term assets	513	591	—
Current liabilities	(20,406)	(7,967)	—
Statement of Operations			
Sales	$ 14,919	$ 8,555	$ —
Expenses	10,642	7,275	—
Net income	$ 4,277	$ 1,280	$ —
Statement of Cash Flows			
Cash provided by (used in):			
Operating activities	$ 11,652	$ (322)	$ —
Investing activities	(353)	(151)	—
Financing activities	(4,588)	(556)	—

4. Accounts Receivable

December 31,	2002	2001	2000
Receivables – Trade	**$ 90,049**	$ 119,358	$ 138,831
– Other	**3,405**	9,525	5,496
Unbilled work in progress	**12,965**	13,886	13,604
	$ 106,419	$ 142,769	$ 157,931

5. Capital and Other Assets

December 31,	2002		2001		2000	
	Cost	**Accumulated Amortization**	Cost	Accumulated Amortization	Cost	Accumulated Amortization
(a) Capital Assets						
Land	**$ 1,330**	**$ —**	$ 1,430	$ —	$ 1,824	$ —
Buildings	**7,187**	**1,736**	7,755	1,697	9,968	1,983
Computer, furniture and fixtures	**72,529**	**45,235**	103,326	57,062	114,484	60,653
Machinery and equipment	**52,079**	**18,284**	76,628	32,002	134,117	56,818
Leasehold improvements	**17,271**	**8,782**	22,095	10,546	30,853	13,677
	150,396	**74,037**	211,234	101,307	291,246	133,131
(b) Other Assets						
Investments, at cost net of provisions	**162**	**—**	606	—	10,845	—
Long-term notes receivable, net of provisions of $27,505 (2001 – $20,247, 2000 – $11,300)	**8,108**	**—**	15,220	—	20,417	—
Customer acquisition costs	**—**	**—**	—	—	33,429	—
Deferred charges	**3,313**	**2,275**	19,955	11,449	24,896	11,706
Deferred finance costs	**16,513**	**6,812**	21,371	7,349	25,300	9,748
Future/Deferred income taxes	**30,787**	**—**	18,158	—	28,570	—
	58,883	**9,087**	75,310	18,798	143,457	21,454
	209,279	**83,124**	286,544	120,105	434,703	154,585
Cost less accumulated amortization		**$ 126,155**		$ 166,439		$ 280,118

Included in capital assets are assets under capital leases with a cost of $17,093 (2001 – $16,312, 2000 – $17,393) and accumulated amortization of $6,500 (2001 – $5,288, 2000 – $4,948). Long-term notes receivable ("Notes") include $22,043, subject to provisions of $14,525, owing from current and former employees, officers and directors of the Company and its subsidiaries, of which $5,600 is on account of share purchase loans, and are secured by shares with a market value of $2,649 as at December 31, 2002. The Notes bear interest from 0% to prime plus 1/2% with no specific terms of repayment. During the year, a provision of $Nil (2001 – $3,814, 2000 – $11,300) relating to employee notes receivable has been recorded.

6. Goodwill

Effective January 1, 2002, the Company adopted the new standards of the CICA Handbook Section 3062 for accounting for goodwill and other intangible assets. These standards require that goodwill no longer be amortized but tested for impairment, at least annually by comparison to its fair value. Pursuant to these standards, management of the Company completed the transitional impairment test as at June 30, 2002. By applying the prescribed method of comparing the fair value of its reporting units to the carrying amounts of its reporting units, the Company has assessed its goodwill and has recorded a transitional impairment loss of $99,513 net of income taxes ($115,513 before income taxes) directly as a reduction to opening retained earnings (deficit) at January 1, 2002.

The original cost and accumulated amortization of goodwill as at December 31, 2001 were as follows:

Cost	$ 514,741
Accumulated amortization	51,995
	$ 462,746

The changes in the carrying amount of goodwill for the year ended December 31, 2002 are as follows:

Balance, January 1, 2002	$ 462,746
Transitional impairment loss	(115,513)
Acquired during the year	32,603
Reduction for dispositions	(87,332)
Foreign currency translation	357
Balance, December 31, 2002	$ 292,861

Net income (loss), adjusted to exclude goodwill amortization expense including the related income tax effects, is as follows:

For the years ended December 31,	**2002**	2001	2000
Reported net income (loss)	**$ 148,313**	$ (153,074)	$ 32,055
Add back: goodwill amortization, net of tax of $Nil (2001 – $2,808, 2000 – $1,634)	**—**	17,417	11,703
Adjusted net income (loss)	**$ 148,313**	$ (135,657)	$ 43,758
Earnings (loss) per share:			
Reported net income (loss)			
Basic	**$ 8.68**	$ (9.20)	$ 1.73
Goodwill amortization	**—**	1.03	0.67
Adjusted net income (loss)	**$ 8.68**	$ (8.17)	$ 2.40
Fully diluted	**$ 5.87**	$ (9.20)	$ 1.49
Goodwill amortization	**—**	1.03	0.54
Adjusted net income (loss)	**$ 5.87**	$ (8.17)	$ 2.03

7. Long-term Indebtedness

December 31,	2002	2001	2000
10.5% unsecured Senior Subordinated Notes, face value US$86,433 (2001 and 2002 – US$200,000) due December 1, 2006, interest payable semi-annually	**$ 136,357**	$ 318,560	$ 299,900
Davis + Henderson, Limited Partnership term facility, due December 2004	**—**	80,000	—
7% convertible debentures, face value $50,000, due January 8, 2007	**11,855**	—	3,271
6% convertible subordinated notes	**—**	5,000	4,408
6.75% mortgage payable	**—**	—	2,531
7.84% mortgage payable, due January 2012	**5,390**	5,500	—
Notes payable and other bank loans	**6,640**	11,857	13,823
MDC credit facility, includes US$Nil (2001 – US$7,000, 2000 – US$120,470)	**—**	11,150	184,814
Maxxcom credit facility, includes US$24,000 (2001 – US$34,500, 2000 – US$28,300)	**37,862**	56,133	44,436
Maxxcom subordinated debenture, due September 2005	**45,465**	40,000	—
	243,569	528,200	553,183
Obligations under capital leases, interest at 6.2% to 8.4%	**8,220**	11,317	15,318
	251,789	539,517	568,501
Less: Current portion	**6,450**	12,049	9,879
	$ 245,339	$ 527,468	$ 558,622

Effective September 30, 2002, the Company amended its senior credit facility which provides for an aggregate maximum borrowing of up to US$40,000, of which US$25,000 has been committed, bearing interest at rates which depend on certain of the Company's financial ratios and which vary in accordance with borrowing rates in Canada and the United States. The credit facility has a term consisting of one year plus a 364-day revolver, with the option, subject to certain consents, of a one-year extension at each anniversary date. The credit facility is secured by a general security agreement, a pledge of shares of subsidiaries and an assignment of intercompany debt.

The Maxxcom stand-alone credit facility provides for an aggregate maximum borrowing of up to $60,000 bearing interest at rates which depend on certain of Maxxcom's financial ratios and which vary in accordance with borrowing rates in Canada and the United States. The facility is secured by a general security agreement, a pledge of shares of Maxxcom's subsidiaries and an assignment of intercompany debt.

On July 11, 2001, Maxxcom issued a $40,000 subordinated debenture which bears interest at bankers' acceptance plus 8%. It is secured by a general security agreement, a pledge of shares of Maxxcom's subsidiaries and intercompany debt and is ranked second to the Maxxcom stand-alone credit facility. In connection with the debenture, Maxxcom issued five-year warrants to the debenture holder which provide for the purchase of up to 1,349,850 Maxxcom shares at a price of $9.00 per share. No value was assigned to the warrants.

In April 2002, Maxxcom reached agreements with its senior credit and subordinated debenture lenders to amend certain of its credit facilities covenants. In connection with these amendments, Maxxcom agreed to amend the exercise price of the warrants to acquire 1,349,850 Maxxcom common shares which were granted to the holders of the $40,000 subordinated debenture. The exercise price was reduced from $9.00 per share to $2.50 per share. As a result of this amendment, the Company recorded a deferred finance charge of $756, representing the estimated value of the warrants at that time.

The notes payable and other bank loans bear interest at rates ranging from prime less 0.5% to a fixed rate of 8.95% and are due between 2003 and 2010. The other bank loans are secured by a general security agreement with a specific subsidiary.

The mortgage and capital leases are secured by specific equipment, land and building.

In accordance with the Company's accounting policy on financial instruments, the net proceeds of $47,350 of the 7% convertible debentures with the face value of $50,000 were originally allocated $14,350 to long-term indebtedness and $33,000 to other paid-in capital within shareholders' equity. Additional amounts were capitalized annually to the equity portion of the notes in order that the equity portion of the notes equaled the face value at the estimated settlement date of January 2002. As the notes were not settled within the estimated period, the 7% convertible debentures were re-assessed in January 2002 with an allocation to long-term indebtedness from other paid-in capital representing the present value of future interest payments. Additional amounts are capitalized annually to the equity portion of the notes in order that the equity portion of the notes will equal the face value at maturity. The 7% convertible debentures are convertible at the option of the holder into Class A shares at a rate of 49.261 Class A shares per $1.00 of debenture. The 7% convertible debentures are redeemable by the Company at par. The Company may, at its option, satisfy the obligation to repay the principal amount of the debentures on redemption or at maturity in freely tradable Class A shares. The debentures are unsecured and rank subordinate to all other indebtedness.

The approximate principal portion of long-term indebtedness repayable in each of the five years subsequent to December 31, 2002 is as follows:

2003	$ 6,450
2004	7,337
2005	89,352
2006	141,666
2007	1,156
Thereafter	5,828
Total	$ 251,789

Total interest on long-term indebtedness was $28,658 (2001 – $52,727, 2000 – $51,463).

The Company's estimate of the fair value of its long-term indebtedness is as follows:

December 31,	**2002**	2001	2000
Maturing within five years	**$ 233,000**	$ 475,000	$ 260,000
Maturing after five years	**6,000**	6,000	280,000
	$ 239,000	$ 481,000	$ 540,000

8. Share Capital

The authorized share capital of the Company is as follows:

An unlimited number of Class A shares (subordinate voting shares) carrying one vote each, entitled to dividends equal to or greater than Class B shares, convertible at the option of the holder into one Class B share for each Class A share after the occurrence of certain events related to an offer to purchase all Class B shares.

An unlimited number of Class B shares carrying 20 votes each, convertible at any time at the option of the holder into one Class A share for each Class B share.

An unlimited number of non-voting preference shares issuable in series.

Changes to the Company's issued and outstanding share capital are as follows:

	Shares	Amount
Class A		
Balance, December 31, 1999	17,289,750	$ 153,488
Share options and warrants exercised	158,360	1,859
Shares acquired and canceled pursuant to a normal course issuer bid	(1,186,801)	(14,966)
Balance, December 31, 2000	16,261,309	140,381
Share options exercised	112,025	1,116
Shares acquired and canceled pursuant to a normal course issuer bid	(841,800)	(10,300)
Shares issued in exchange for CyberSight Acquisition Co., Inc. shares	933,337	11,200
Balance, December 31, 2001	16,464,871	142,397
Allocation from other paid-in capital upon settlement of 6% convertible subordinated notes	—	1,943
Balance, December 31, 2002	16,464,871	$ 144,340
Class B		
Balance, December 31, 1999	451,563	$ 202
Conversion to Class A shares	(1,093)	—
Balance, December 31, 2000, 2001 and 2002	450,470	$ 202
Series 3 Preference Shares		
Balance, December 31, 1999	—	$ —
Shares issued by private placement	3,800,000	—
Balance, December 31, 2000	3,800,000	—
Shares converted to CyberSight Acquisition Co., Inc. shares	(3,800,000)	—
Balance, December 31, 2001 and 2002	—	$ —
Total Class A and Class B Share Capital		
2002	16,915,341	$ 144,542
2001	16,915,341	$ 142,599
2000	16,711,779	$ 140,583

The notes payable and other bank loans bear interest at rates ranging from prime less 0.5% to a fixed rate of 8.95% and are due between 2003 and 2010. The other bank loans are secured by a general security agreement with a specific subsidiary.

The mortgage and capital leases are secured by specific equipment, land and building.

In accordance with the Company's accounting policy on financial instruments, the net proceeds of $47,350 of the 7% convertible debentures with the face value of $50,000 were originally allocated $14,350 to long-term indebtedness and $33,000 to other paid-in capital within shareholders' equity. Additional amounts were capitalized annually to the equity portion of the notes in order that the equity portion of the notes equaled the face value at the estimated settlement date of January 2002. As the notes were not settled within the estimated period, the 7% convertible debentures were re-assessed in January 2002 with an allocation to long-term indebtedness from other paid-in capital representing the present value of future interest payments. Additional amounts are capitalized annually to the equity portion of the notes in order that the equity portion of the notes will equal the face value at maturity. The 7% convertible debentures are convertible at the option of the holder into Class A shares at a rate of 49.261 Class A shares per $1.00 of debenture. The 7% convertible debentures are redeemable by the Company at par. The Company may, at its option, satisfy the obligation to repay the principal amount of the debentures on redemption or at maturity in freely tradable Class A shares. The debentures are unsecured and rank subordinate to all other indebtedness.

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Series 3 Preference Shares		
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Balance, December 31, 2000	3,800,000	—
Shares converted to CyberSight Acquisition Co., Inc. shares	(3,800,000)	—
Balance, December 31, 2001 and 2002	—	$ —
Total Class A and Class B Share Capital		
2002	16,915,341	$ 144,542
2001	16,915,341	$ 142,599
2000	16,711,779	$ 140,583

The Company has an employee share option incentive plan, which currently may grant up to 2,331,112 options to employees, officers, directors and consultants of the Company. All options granted are for a term of no more than five years from the date of grant and vest 20% on the date of grant and a further 20% on each anniversary date.

The Company has reserved a total of 4,994,166 Class A shares in order to meet its obligations under various conversion rights, warrants and employee share options. At December 31, 2002 there were 81,484 shares available for future option grants.

Information related to share option transactions over the past three years is summarized as follows:

	Options Outstanding		Options Exercisable	
	Weighted Average Number Outstanding	Weighted Average Price per Share	Number Outstanding	Price per Share
Balance, December 31, 1999	2,466,864	$ 12.06	1,184,154	$ 11.33
Granted	277,334	12.78		
Exercised	(141,694)	11.35		
Expired and canceled	(346,225)	13.25		
Balance, December 31, 2000	2,256,279	12.01	1,347,556	11.46
Granted	130,000	9.19		
Exercised	(112,025)	9.98		
Expired and canceled	(416,409)	11.81		
Balance, December 31, 2001	1,857,845	11.89	1,314,736	11.67
Granted	812,000	5.45		
Expired and canceled	(420,217)	9.04		
Balance, December 31, 2002	2,249,628	$ 10.17	1,353,344	$ 12.03

Share options outstanding at December 31, 2002 are summarized as follows:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Contractual Life	Weighted Average Price per Share	Number Exercisable	Weighted Average Price per Share
$ 3.86 – $ 6.00	805,000	4.7	$ 5.32	166,000	$ 5.27
$ 6.01 – $10.00	309,500	1.1	9.68	283,900	9.87
$10.01 – $12.00	334,811	2.4	10.90	220,377	10.97
$12.01 – $14.25	457,483	0.8	13.75	419,433	13.82
$14.26 – $18.00	342,834	1.7	16.55	263,634	16.63

The Company records no compensation expense when options are issued to employees but provides pro forma information for options granted after January 1, 2002, as disclosed in the Summary of Significant Accounting Policies. The Company estimates the fair value of each share option on the date of grant using the Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 6%; expected volatility of 40%; expected option life of five years; and no dividend payments. Had compensation expense been recorded for employee stock option grants, the resulting pro forma net earnings and earnings per share would be as follows:

For the year ended December 31, 2002	
Pro forma net income	$ 148,202
Pro forma earnings per share	
Basic	$ 8.67
Fully diluted	$ 5.87

9. Other Paid-in Capital

December 31,	**2002**	2001	2000
Balance, beginning of year	**$ 51,943**	$ 47,956	$ 44,286
Allocation upon re-assessment of 7% convertible debentures (see Note 7)	**(14,351)**	—	—
Allocation to share capital upon settlement of 6% convertible subordinated notes	**(1,943)**	—	—
Allocation from retained earnings	**2,496**	3,987	3,670
Balance, end of year	**$ 38,145**	$ 51,943	$ 47,956

During 2002, share capital increased $1,943 representing the transfer from other paid-in capital of the expired option value associated with the 6% convertible subordinated notes which were repaid.

10. Cumulative Translation Adjustment

This adjustment represents the net unrealized foreign currency translation gain (loss) on the Company's net investment in self-sustaining foreign operations in the United States, the United Kingdom and Australia

11. Restructuring, Dispositions and Other Charges

For the years ended December 31,	**2002**	2001	2000
Cash charges	**$ (8,124)**	$ (21,158)	$ —
Non-cash charges against specific assets	**(5,404)**	(166,847)	(17,811)
Gain on disposal of assets	**168,581**	96,393	42,200
	$ 155,053	$ (91,612)	$ 24,389

During 2002, the Company disposed of its remaining interest in Davis + Henderson, A.E. McKenzie Co. Inc., The House of Questa Limited, Spectron Security Print Pty. Ltd., Ashton-Potter Packaging and CyberSight Acquisition Co., Inc. for aggregate gross proceeds of approximately $297,000. Cash charges incurred relate to expenditures associated with the postponed income trust of Custom Direct including costs incurred to settle a supply contract dispute.

During 2001, the Company identified the businesses that were core to its goal of providing outsourced services to financial institutions and developed a plan to maximize the returns in those businesses and construct an orderly exit from non-core activities. The plan included a reduction in the estimated useful life of deferred customer acquisition costs in the direct-to-consumer cheque market as a result of the absence of predictability in the direct response market, extensive cost reduction initiatives across the organization, including an approximate 15% reduction in the Company's workforce, the exit from certain leased facilities and the provisions against specific assets connected with various non-core businesses which will be exited in the foreseeable future. The resulting restructuring charge comprised non-cash charges of $166,847 related to writedowns in customer acquisition costs and other specific assets. The Company disposed of 45.45% of Davis + Henderson for aggregate gross proceeds of approximately $172,000. Cash charges amounted to $21,158 related primarily to employee termination costs and vacated lease premise costs, of which $5,588 was paid in 2002 (2001 – $9,292) with a balance of $3,317 (2001 – $11,866) remaining in accounts payable.

12. Income Taxes

The Company's provision (recovery) for income taxes is comprised as follows:

For the years ended December 31,	**2002**	2001	2000
Current	**$ 1,272**	$ 645	$ 12,220
Future	**33,782**	(32,884)	(7,255)
	$ 35,054	$ (32,239)	$ 4,965

Reconciliation to statutory rates is as follows:

For the years ended December 31,	**2002**	2001	2000
Provision for income taxes based on combined basic Canadian federal and provincial tax rate of 38.6% (2001 – 42.1%, 2000 – 44.3%)	**$ 72,604**	$ (63,952)	$ 17,615
Increase (decrease) in taxes resulting from permanent differences			
– Capital gains	**(32,673)**	(7,324)	(10,671)
– Other, including non-deductible goodwill charges	**(4,480)**	24,203	(1,979)
Losses not recognized for income tax purposes	**(397)**	14,834	—
Total provision (recovery)	**$ 35,054**	$ (32,239)	$ 4,965

Disclosed on the Consolidated Statements of Operations as follows:

For the years ended December 31,	**2002**	2001	2000
Income taxes (recovery)	**$ 35,054**	$ (28,663)	$ 6,599
Recovery of income taxes related to goodwill charges	**—**	(3,576)	(1,634)
	$ 35,054	$ (32,239)	$ 4,965

The tax effects of significant items comprising the Company's future tax assets and liabilities as at December 31 are as follows:

	2002	2001	2000
Future tax assets			
Differences between book and tax basis of equity transaction costs	$ 1,708	$ 3,315	$ 3,778
Loss carryforwards related to equity transaction costs	1,970	8,814	8,351
Operating loss carryforwards and differences between book and tax basis	27,109	34,029	16,441
	$ 30,787	$ 46,158	$ 28,570
Future tax liabilities			
Difference between book and tax basis of capital and other assets	$ —	$ —	$ 23,240
Operating loss carryforwards	—	—	(2,595)
	$ —	$ —	$ 20,645

At December 31, 2002, the Company has income tax loss carryforwards of approximately $27,000 which relate to the Company and certain subsidiaries, the tax benefits of which have been recognized in these financial statements. The tax loss carryforwards expire between 2004 and 2021. In addition, certain other subsidiaries have income tax loss carryforwards of approximately $30,000, the tax benefit of which have not been recognized in these financial statements.

13. Discontinued Operations

In December 1997, the Company adopted a plan to divest its Regal Greetings & Gift and Primes de Luxe ("Regal") operations. Accordingly, the results of Regal were reported as discontinued operations. Interest was allocated to such discontinued operations. During the second quarter of 2001, the Company recorded a provision of $40,000 to cover the anticipated loss on disposal. The Company completed the disposal of Regal in the fourth quarter of 2001 for proceeds of approximately $36,000 with no adjustment required to the provision.

For the years ended December 31,	2002	2001	2000
Sales	$ —	$ 77,854	$ 80,069
Income from operations	—	—	—
Provision for loss on disposal	—	(40,000)	—
Loss from discontinued operations	$ —	$ (40,000)	$ —

14. Earnings per Share

Basic earnings per share has been calculated on a weighted average basis of Class A shares and Class B shares outstanding during the year and after giving effect to the net allocation to other paid-in capital related to the convertible debentures.

The calculation of fully diluted earnings per share is based upon the treasury method which the Company adopted as of January 1, 2001, pursuant to the recommendation of the CICA. The treasury method was adopted with retroactive treatment, and accordingly, the comparative year's diluted earnings per share has been restated.

The weighted average shares outstanding during the year are as follows:

For the years ended December 31,	**2002**	2001	2000
Basic	**16,915,341**	16,885,877	17,366,704
Impact of dilutive items	**8,441,677**	—	4,467,388
Fully diluted	**25,357,018**	16,885,877	21,834,092

15. Retirement Plans

During 2002, the Company disposed of the operations that contained defined benefit pension plans. The estimated market value of assets in the defined benefit component of the pension plans was $Nil at December 31, 2002 (2001 – $5,314, 2000 – $16,772). These assets are available to meet the estimated present value of accrued pension and other benefits obligations of $Nil at December 31, 2002 (2001 – $5,016, 2000 – $15,079).

16. Commitments

The Company has leased real estate and equipment at the following approximate annual base rental:

2003	$ 16,769
2004	16,214
2005	14,486
2006	11,661
2007	7,961
Thereafter	15,671

17. Contingent Liabilities

(a) As at December 31, 2002, there are claims against the Company in varying amounts. It is not possible to determine the amounts that may ultimately be assessed against the Company with respect to these claims; however, management believes that any such amounts would not have a material impact on the business or financial position of the Company.

(b) Owners of interests in certain of the Company's subsidiaries have the right in certain circumstances to require the Company to purchase additional ownership stakes. Minority shareholders of two of the subsidiaries have given notice of their intent to exercise their right to require the Company to purchase one-third of their total respective interests in the related subsidiaries. Should these interest holders ultimately exercise the right as indicated, the Company will be required to complete the purchase in the fourth quarter of 2003. The ultimate amount payable will vary because it is dependent on future results of operations of the subject subsidiaries. Based on various assumptions as to the future results of the relevant subsidiaries, it is estimated that these obligations would be approximately $3,500.

18. Related Party Transactions

The Company incurred fees totaling $3,800 (2001 – $5,375, 2000 – $5,530) to a company controlled by an officer of the Company in respect of services provided, including merger and acquisition, financial and administrative. In addition, the Company has a non-interest bearing note receivable of $3,000 (2001 and 2000 – $3,000) from another company controlled by the same officer.

19. Segmented Information

Based on the Company's internal management structure, the Company's continuing operations are in primarily two business segments – Secure Transactions and Marketing Communications through Maxxcom Inc. Secure Transactions operations provide security products and services in four primary areas: personalized transaction products such as personal and business cheques; electronic transaction products

such as credit, debit, telephone and smart cards; secure ticketing products such as airline, transit and event tickets; and stamps, both postal and excise. Maxxcom provides a comprehensive range of communication services which include advertising, direct marketing, database management, sales promotion, corporate communications, marketing research, corporate identity and branding, and interactive marketing. The significant accounting policies of these segments are the same as those described in the Summary of Significant Accounting Policies.

For the year ended December 31, 2002	Secure Transactions	Maxxcom	Total
Earnings			
Sales	**$ 343,742**	**$ 599,590**	**$ 943,332**
Operating income before other charges	**$ 53,036**	**$ 26,801**	**$ 79,837**
Restructuring, dispositions and other charges	**155,959**	**(906)**	**155,053**
Unrealized foreign exchange gain	**6,702**	**—**	**6,702**
Amortization	**(13,623)**	**(11,858)**	**(25,481)**
Interest, net	**(19,699)**	**(8,319)**	**(28,018)**
	129,339	**(21,083)**	**108,256**
Income before income taxes and minority interest	**182,375**	**5,718**	**188,093**
Income taxes	**33,255**	**1,799**	**35,054**
Income before minority interest	**149,120**	**3,919**	**153,039**
Minority interest	**4,726**	**—**	**4,726**
Net income for the year	**$ 144,394**	**$ 3,919**	**$ 148,313**
Total assets	**$ 280,059**	**$ 324,727**	**$ 604,786**
Expenditures on capital assets	**$ 6,801**	**$ 5,878**	**$ 12,679**

For the year ended December 31, 2001	Secure Transactions	Maxxcom	Total
Earnings			
Sales	$ 516,455	$ 596,817	$1,113,272
Operating income before other charges	$ 91,462	$ 26,882	$ 118,344
Restructuring, dispositions and other charges	(77,412)	(14,200)	(91,612)
Unrealized foreign exchange loss	(18,660)	—	(18,660)
Amortization	(26,248)	(10,273)	(36,521)
Interest, net	(46,242)	(6,456)	(52,698)
	(168,562)	(30,929)	(199,491)
Loss before income taxes, goodwill charges and minority interest	(77,100)	(4,047)	(81,147)
Income taxes (recovery)	(26,098)	(2,565)	(28,663)
Loss before goodwill charges and minority interest	(51,002)	(1,482)	(52,484)
Goodwill charges	52,192	14,989	67,181
Minority interest (recovery)	(6,591)	—	(6,591)
Loss from continuing operations	(96,603)	(16,471)	(113,074)
Loss from discontinued operations	(40,000)	—	(40,000)
Net loss for the year	$ (136,603)	$ (16,471)	$ (153,074)
Total assets	$ 489,733	$ 404,773	$ 894,506
Expenditures on capital assets	$ 18,850	$ 6,283	$ 25,133

For the year ended December 31, 2000	Secure Transactions	Maxxcom	Total
Earnings			
Sales	$ 561,752	$ 605,030	$1,166,782
Operating income before other charges	$ 93,696	$ 33,085	$ 126,781
Restructuring, dispositions and other charges	24,389	—	24,389
Unrealized foreign exchange loss	(11,460)	—	(11,460)
Amortization	(30,164)	(7,023)	(37,187)
Interest, net	(47,783)	(1,675)	(49,458)
	(65,018)	(8,698)	(73,716)
Income before income taxes, goodwill charges and minority interest	28,678	24,387	53,065
Income taxes (recovery)	(1,923)	8,522	6,599
Income before goodwill charges and minority interest	30,601	15,865	46,466
Goodwill charges	8,370	3,333	11,703
Minority interest	2,708	—	2,708
Net income for the year	$ 19,523	$ 12,532	$ 32,055
Total assets	$ 730,417	$ 366,938	$1,097,355
Expenditures on capital assets	$ 25,745	$ 9,557	$ 35,302

Geographic Information

	2002	2001	2000
Sales			
Canada	**$ 295,062**	$ 427,236	$ 501,137
United States	**592,499**	611,059	612,833
Other countries	**55,771**	74,977	52,812
Total	**$ 943,332**	$1,113,272	$1,166,782

	2002	2001	2000
Capital Assets and Goodwill			
Canada	**$ 80,976**	$ 207,688	$ 312,794
United States	**266,868**	329,394	306,555
Other countries	**21,376**	35,591	48,619
Total	**$ 369,220**	$ 572,673	$ 667,968

Board of Directors & Corporate Officers

Chairman

Miles S. Nadal
Chairman, President &
Chief Executive Officer
MDC Corporation Inc.

Members

Thomas N. Davidson(1)(2)
Chairman
Quarry Hill Group

Guy P. French(2)(3)
Partner
Corso, Mizgala & French

Albert Gnat, QC
Partner
Lang, Michener
Barristers & Solicitors

Richard R. Hylland(1)(2)(3)
President & Chief Operating Officer
NorthWestern Corporation

Robert "Kam" Kamerschen(2)(3)
Retired Chairman & CEO
Advo, Inc.

Stephen M. Pustil
President
Penwest Development
Corporation Limited

François R. Roy(1)(3)
Chief Financial Officer
Telemedia Corporation

Corporate Officers

Miles S. Nadal
Chairman, President &
Chief Executive Officer

Peter M. Lewis
Executive Vice-President
& Chief Financial Officer

Walter Campbell
Senior Vice-President,
Finance & Corporate Secretary

Graham L. Rosenberg
Executive Vice-President

Maria Pappas
Assistant Secretary

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(2) Compensation Committee
(3) Nominating and Corporate Governance Committee

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BDO Dunwoody LLP

Bankers

The Toronto-Dominion Bank
Canadian Imperial Bank of Commerce
Bank of Nova Scotia

Transfer Agent

CIBC Mellon Trust Company
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Investor Relations

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Stock Exchange Listing

The Class A shares of the Company are listed on The Toronto Stock Exchange and on the NASDAQ National Market in the United States.

The Toronto Stock Exchange Trading Symbol

MDZ.A

NASDAQ National Market

MDCA

Notice of Shareholders' Meeting

The annual meeting of shareholders will be held Thursday, May 29th, 2003 at 4:30 p.m. at the Design Exchange, Toronto-Dominion Centre, 234 Bay Street, Trading Floor, Toronto, Ontario.

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